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DEPARTMENT OF STATE

OIR Contribution to SE 37: "Probable Effects on the Soviet Bloc of Certain Courses of Action Directed at Internal and External Commerce of Communist China"

February 20, 1953

- I. Extent of Present Controls on Trade With Communist China. (ORR)
- II. Effect of Present Controls on Communist China
- A. Effect on Communist China's Foreign Trade
1. Trade with Non-Communist Countries
- a. Imports
- Document No. _____
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☒ It has an objection to release
☐ It contains information of a type which is not in the public domain
☐ It contains nothing of CIA interest
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The value of the goods imported from non-Communist countries by Communist China after June, 1950 rose to a peak in the first half of 1951 but then dropped sharply during the second half of 1951, when trade controls became more stringent, and have remained at a relatively low level through 1952. These imports are estimated at \$382 million in the first half of 1951, \$148 million in the second half of 1951, and \$135 million and \$155 million respectively in the first and second halves of 1952.

The volume of imports from non-Communist countries fell from 746,000 tons in the first half of 1951 to 242,000 tons in the second half of 1951, and then rose to 270,000 tons in the first half of 1952 and 330,000 tons in the second half of 1952. The rise in tonnage as opposed to the relatively stable value of these imports in the last 18 months reflects the increased import of such bulky commodities as ammonium sulphate and heavy industrial chemicals.

The decline in imports occurred largely in categories of goods which most non-Communist countries control, notably metals and machinery,

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and crude rubber. (In the case of crude rubber, imports have continued to arrive principally from Ceylon.) During the 18 months ending December 1952, raw cotton accounted for one-quarter, and crude rubber, pharmaceuticals, fertilizers, dyestuffs, and heavy industrial chemicals for one-half of Communist China's imports from non-Communist countries. If metals and machinery are excluded, the level and pattern of imports in 1952 were roughly the same as in 1950. But imports of metals and machinery amounted to \$125 million in 1950 as compared with only 15 million in 1952.

b. Exports

Foreign exchange earnings from exports to non-Communist countries have declined steadily since their peak in the last half of 1950. These exports are estimated at \$400 million in 1950, \$335 million in 1951, and \$270 million in 1952.

The volume of exports to non-Communist countries in 1952 is very roughly estimated at 1.7 million tons (2.4 million tons in 1951), consisting largely of low-value bulky items such as coarse grains and soy beans.

Exports have been adversely affected by the loss of the U.S. market and by the exclusion of foreign traders and foreign banking, insurance, and other commercial facilities. With the loss of markets (principally that of the U.S.) for specialized items such as tung oil, bristles, egg products, and handicrafts, Communist China's exports to non-Communist countries have increasingly been limited to foodstuffs for Hong Kong and Malaya and grains and oilseeds for South Asia and Western Europe.

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2. Trade With the Soviet Bloc

a. Imports

On the basis of Chinese Communist data, imports from the Soviet Bloc rose from \$110 million in 1950 to nearly \$1 billion in 1951. It appears reasonable to assume that imports in 1952 remained at roughly the same level in 1952. (Recent Chinese Communist data indicate that total trade (imports plus exports) with the Soviet Bloc in 1952 amounted to almost \$1.5 billion. Assessment of imports at \$1 billion and exports at \$500 million appears reasonable, although to a large degree arbitrary.)

Imports in both 1951 and 1952 consisted largely of military equipment and of commodities unavailable from non-Communist countries, notably petroleum, vehicles, machinery, metals, and metal manufactures. However, there were some imports from the Bloc of items currently being imported from the West, such as drugs, fertilizers, chemicals, and sugar.

Soviet Bloc shipments to Communist China by sea are estimated at 700,000 tons in 1952¹ as against 350,000 tons in 1951. On the basis of partial cargo data it is estimated that roughly one-fifth of this tonnage in 1952 consisted of petroleum products, two-fifths of metals, machinery, and other commodities controlled by the West. By assigning average values per ton to each of the above categories, the value of seaborne imports from the Soviet Bloc is estimated at approximately \$200 million.

Deducting this value for seaborne imports from estimated total imports from the Soviet Bloc of under \$1 billion, leaves somewhat less than

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1. Exclusive of approximately 50,000 tons of cargo picked up by Bloc vessels in non-Communist countries and shipped to Communist China. This cargo has been counted in Communist China's imports from non-Communist countries.

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\$800 million as the estimated value of overland imports. Military equipment undoubtedly accounted for a large part of these overland imports. In addition, it is known that there were large commercial imports via the Trans-Siberian railroad, including petroleum, motor vehicles, metals and machinery.

The volume of these overland imports can only be estimated on a highly tentative basis. POL shipments are estimated at 700,000 tons and valued at \$70 million. On the assumption of an average value of \$500 per ton, the volume of the remaining overland imports would amount to approximately 1,400,000 tons. Thus, the total volume of overland shipments in 1952 is estimated to be 2.1 million tons. In addition there may have been shipments of materiel that were provided to Communist China on a grant or loan basis and not included in the trade statistics.

b. Exports

On the basis of Chinese Communist data and other fragmentary information, it is estimated that Chinese Communist exports to the Soviet Bloc were \$175 million in 1950 and \$350 million in 1951. There is considerable evidence to indicate that these exports rose sharply in 1952 and for that year they are very roughly estimated at \$500 million. It is believed that the Chinese Communists are attempting to increase their exports to the Soviet Bloc in 1953, apparently in an effort to reduce their trade deficit with the Soviet Bloc.

The volume of Chinese Communist exports to the Bloc that moved by sea during 1952 estimated roughly at 800,000 tons and consisted largely of grain, soy beans, and ores.

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3. Summary

The changes in Communist Chinese foreign trade (by value) between 1950, which was the last year before the application of trade controls, and 1952 are summarized below:

	(millions of U.S. dollars)								
	<u>Bloc</u>	<u>1950</u> <u>West</u>	<u>Total</u>	<u>Bloc</u>	<u>1951</u> <u>West</u>	<u>Total</u>	<u>Bloc</u>	<u>1952</u> <u>West</u>	<u>Total</u>
Exports to:	175	400	575	350	335	685	500	270	770
Imports from:	110	415	525	985	530	1515	940	290	1230
Total Trade									
with:	285	815	1100	1335	865	2200	1440	560	2000

In terms of volume Communist China's foreign trade in 1952 may be summarized as follows: total seaborne imports amounted to 1.3 million tons (700,000 tons from Bloc ports and 600,000 tons from the West) as compared with overland imports of at least 2.1 million tons. (All overland imports are assumed to come in from the Bloc; the relatively small volume of such imports coming in by land from the West is, for present purposes, included in the West's seaborne exports to Communist China.) The total volume of Communist China's seaborne exports in 1952 is estimated at 2.5 million tons (1.7 million tons to the West and .8 million tons to the Bloc).

With due regard to the tenuous character of the data the following observations appear warranted:

a. Between 1950 and 1952, Communist China's foreign trade with the Bloc increased very rapidly both in absolute and relative terms. In 1950 only 1/4 of Communist China's foreign trade was with the Soviet Bloc while 3/4 was with the West. In 1952 these proportions were almost reversed:

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----- Economic expansion occurred despite the

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over 70% of the trade was with the Soviet Bloc and less than 30% with the West. In the case of imports alone this trend was even more marked: the proportion of Communist China's total imports that came from the Bloc increased from less than 20% in 1950 to over 75% in 1952.

b. Western trade controls undoubtedly were an important factor contributing to these changes. However, the other factors would have tended to increase the level of Soviet Bloc exports to China irrespective of western trade controls: (1) the shipment of Soviet military supplies for support of the Communist war effort in Korea; and (2) the commitments for Soviet economic assistance to Communist China that were contained in the Sino-Soviet agreements of 1950.

c. In aggregate terms the reduction in Communist Chinese imports from the West between 1950 and 1952 has apparently been more than offset by "commercial" imports from the Soviet Bloc. Curtailment of trade with the West would appear to have been roughly offset by the increase in Soviet seaborne imports which do not appear to include military equipment. And further imports of non-military goods came in over the Trans-Siberian railroad.

B. Economic Effects

During the last two years, the Chinese Communist regime made rapid progress in economic reconstruction, particularly in the restoration and expansion of its industrial capacity, and further strengthened its political and economic controls (see "The Internal Situation in Communist China" in OIR contribution to NIE-80). Economic expansion occurred despite the

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curtailment of trade with the West. As is indicated by the analysis of Communist China's foreign trade in the preceding section, the increase in imports from the Soviet Bloc between 1950 and 1952 was greater than the reduction in imports from the West. Without Western trade restrictions Communist China's economic progress probably would have been greater than it actually was and it certainly could have been accomplished at less cost to the rest of the Soviet Bloc.

The shift in trade resulting from Western trade controls has imposed some burden on the rest of the Soviet Bloc. The rest of the Bloc was forced to provide Communist China with some commodities that it normally imports or which are in relatively short supply and experienced a net outflow of resources as represented by the large active balance in its trade with Communist China. The extent to which the ultimate burden of this outflow of resources will fall on Communist China depends on the terms of delivery.

In the case of Communist China, Western trade controls have reduced its net returns from foreign trade (prices for imports were higher and receipts from exports were lower than they otherwise would have been). Communist China probably encountered further difficulties because the level of imports probably did not meet the increasing level of requirements and because, in the case of some bottleneck items, deliveries were either delayed or could not be made, and less efficient domestic substitutes had to be contrived.

1. Industrial Effects

The restriction of imports into Communist China as a result of present controls has not curtailed industrial output. In fact, because of

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the greatly increased level of commercial imports from the Soviet Bloc and the more effective use of available equipment and stocks in Communist China, industrial output has expanded at a rapid rate. However, the inability to obtain repair parts for certain Western equipment and the use of the cumbersome mechanism of Soviet Bloc barter trade have probably hampered the Chinese in achieving production goals and expanding industrial capacity.

2. Effect on Transportation (see O/RR Contribution)

The railroad transportation system of Communist China has steadily improved in capacity and performance and now seems to be carrying more freight tonnage than at any time in its history. The Soviet Bloc has supplied locomotives, freight cars, rolling stock parts, and rails, which, despite the losses in Korea, have apparently permitted the maintenance of existing equipment and the continued expansion of the rail network. However, although the Soviet Bloc has supplied the railway materials necessary to offset Western controls, such equipment is scarce in the Bloc and its diversion to Communist China represents a burden which, depending on the terms of delivery, has been borne either by the Soviet Bloc or by Communist China or by both. (See O/RR Contribution.)

Imports from the Soviet Bloc of trucks and petroleum have permitted a large expansion in highway freight movements, which has been important to the current development of the Northwest region and in the development of rural markets through "feeder" lines to the railways. However, motor vehicle parts have been continuously smuggled at premium prices from Western sources in contravention of controls, indicating that Soviet Bloc assistance has not

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kept pace with the growing Chinese Communist requirements and that Western controls have imposed some cost on Communist China.

Coastal shipping has not been appreciably affected by Western controls since most non-Communist countries permit their flag vessels to operate in the Chinese Communist coastal trade. However, during the last year the Chinese Communist demand for foreign coastal shipping seems to have slackened; charter rates offered are reported to have declined by half in 1952, with the result that in recent months 10 coasters have been or are being scrapped in Hong Kong and 5 additional coasters are reportedly preparing to be scrapped. It is possible that an increasing part of Chinese Communist requirements for river and coastal shipping capacity is being met by their own fleet, which they claim to be 380,000 GRT.

3. Other Economic Effects

The reduction in Communist China's net receipts from foreign trade must be viewed as a deduction from the resources that otherwise would have been available to the government. However, the government's fiscal capabilities increased very greatly during the last two years, as is indicated by available budgetary data. (See OIR contribution to NIE-80.) Particularly notable in this respect is the fact that prices appear to have remained relatively stable in 1952 despite the high level of government expenditures for military and economic purposes.

The non-industrialized segments of Communist China's economy have few requirements for the imported materials affected by Western trade controls and have, therefore, been little affected by the embargo.

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C. Military Effects (Defense and O/RR)

D. Internal Political Effects

The Chinese Communists have used the Korean war as a pretext for consolidating their political and economic controls. Western trade restrictions have had only limited effect on the economy in view of Soviet economic assistance but they have been cited by the Communists in domestic propaganda as an additional indication of the implacable hostility of the West.

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III. Effects of a Total Embargo

A. Effect on Trade

1. Projected Trade in 1953 or the Theoretical Annual "Loss" of Imports

Assuming the continuation of present controls, it is estimated that the total value of Communist China's imports from the West in 1953 will remain at present levels. As compared with 1952, however, the composition of imports is estimated to change as follows:

- (1) Raw cotton imports are expected to decline in value from \$103 million to \$50 million and in volume from 86,000 tons to 50,000 tons. Prices are lower and domestic production is increasing. Furthermore, Chinese buyers in the Pakistan market thus far have shown little interest in arranging for raw cotton purchases in 1953.
- (2) Imports of rubber are estimated to increase from \$22 million to \$45 million, or the level called for in the Ceylon-Communist China barter agreement.
- (3) Imports of fertilizer are estimated to increase by 50 percent in volume and value in view of Chinese Communist efforts to increase production of industrial crops.

As a result of these changes the volume of imports from non-Communist countries in 1953 is projected at 660,000 tons as compared with 560,000 tons in 1952.

Exports to the West in 1953 are projected to be the same as in 1952, or 1.7 million tons valued at \$270 million.

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2. Smuggling

It is unlikely that the present rate of smuggling could be increased significantly inasmuch as a complete embargo would necessarily involve a general strengthening of controls. Clandestine imports would tend increasingly to consist of items of small bulk and high value, such as drugs and motor vehicle parts, but the total volume may be assumed to be about 40,000 tons, the level projected for 1953 under the assumption of existing controls.

3. Trade with the Soviet Bloc

The rest of the Soviet Bloc could assume the entire burden of the costs imposed by an embargo and supply to Communist China all of the commodities it otherwise would have received from the West. Such commodities are available in the Bloc and transport facilities would not impose an absolute limit on their shipment (see O/RR contribution on transportation).

However, since the commodities China imports from the West for the most part are not critical to the Chinese Communist military and economic program it is probable that the costs of the embargo would be shared by Communist China and the rest of the Soviet Bloc. It is estimated that the the Bloc would supply all of the more essential commodities and in addition would supply the remaining commodities to the degree that the burden thus imposed on the rest of the Soviet orbit would be relatively small. On this basis it is roughly estimated that the Bloc would supply virtually all the iron and steel, machinery and metals, and drugs (which together would amount to 32,000 tons valued at \$45 million); most of the heavy industrial

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chemicals, dyes, and paper (110,000 tons valued at \$27 million); and only a part of the crude rubber, chemical fertilizer, and miscellaneous commodities (210,000 tons valued at \$58 million). However, because of the supply situation within the rest of the Bloc, the increased transport costs involved, and because in some cases the commodities would be considered less essential to Communist China, the Soviet Bloc would not compensate for any of the raw cotton, gunny bags, and some miscellaneous commodities, and would compensate for only part of the rubber and chemical fertilizer that Communist China otherwise would have obtained from the West.

If it is assumed that these additional imports are carried by sea, total seaborne imports from the Bloc in Bloc vessels would amount to 1,050,000 tons in 1953 as compared with 600,000 tons in 1952. (In 1952 Bloc vessels carried 650,000 tons including 50,000 tons of cargo from non-Communist countries and non-Bloc vessels carried 100,000 tons from Bloc ports to Communist China.) Since imports from the Soviet Far East may be projected at 300,000 tons or the same level as in 1952, imports from Eastern Europe would increase requirements for cargo space from 350,000 tons in 1952 to 750,000 tons in 1953.

The requirement for shipping to carry this cargo from Eastern Europe may be calculated at 250,000 GRT in 1953 as opposed to 120,000 GRT in 1952.¹ In addition, it may be estimated that bunkering controls would reduce the cargo carrying capacity of these vessels by one-sixth, increasing the shipping

1. Assuming three round trips per year less 25 percent for time in overhaul.

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requirement to 290,000 GRT. The employment of this additional shipping is believed well within the capabilities of the Soviet and Polish merchant fleets, so long as Western ships remain available for charter to meet Soviet Bloc shipping requirements elsewhere. Moreover, some additional shipments could be made overland if the Soviet Bloc were willing to pay the costs involved.

An embargo would also result in a decrease of Communist China's total exports and an increase in its exports to the Soviet Bloc. Because of the increased transport costs involved and the nature of the commodities, it is probable that it would not be worth while for the Communists to divert to the European Soviet Bloc a large part of the 1.7 million tons of commodities that Communist China now exports to the West and these commodities would not be exported at all. However, the composition of total Chinese Communist exports to the Bloc would probably shift toward items that are higher in value in relation to their bulk. At a minimum, Communist China could increase the value of its exports to the Bloc to an extent equal to the projected increase in the value of Bloc exports to Communist China. This would require some increase in shipments over the Trans-Siberian railroad in addition to full utilization of the 1,050,000 tons of shipping capacity carrying imports to Communist China.

3. Net Changes in Communist China's Foreign Trade

On the basis of the above highly speculative estimates, an embargo would reduce the volume of Communist China's total imports by 300,000 tons and the value by \$130 million. This would represent a reduction of

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approximately 10 percent in both the volume and value of Communist China's imports projected on the assumption of a continuation of present controls. The reduction in imports would be concentrated among a few producers' goods, principally raw cotton and crude rubber.

If the increase in the value of imports from the Soviet Bloc is matched by an increase in the value of Chinese Communist exports to the Soviet Bloc, Communist China's total exports would be reduced by \$130 million or by more than 15 percent from the level projected assuming the continuation of present controls. The proportionate reduction in the volume of exports would be greater.

B. Economic Effects

The reduction in imports resulting from the embargo would have some adverse effects on Chinese Communist economic plans, principally with regard to planned increases in the production of consumers' goods. The loss of raw cotton imports would reduce available supplies of raw cotton in 1953 by approximately 7 percent and this would preclude achievement of the planned increase of 9 percent in cotton yarn output. Curtailment of rubber imports would reduce the output of the rubber products industry by approximately one-half and would be reflected principally in sharp reductions in domestic output of rubber shoes and bicycle tires. The loss of gunny bag imports would necessitate the increased use of substitute domestic fiber materials, which are generally less adequate. The reduction of fertilizer supplies would tend to limit the planned increases in the output of various industrial crops -- notably cotton, sugar, and tobacco -- but would have no important

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effect during the first year of the embargo. On the other hand, these losses in output would in part be offset by the increased availability for domestic consumption of some commodities that formerly were exported to the West.

The loss of foreign flag shipping for domestic coastal services would reduce coastal shipping capacity, but Chinese Communist shipping, which now carries the bulk of this trade, and the North-South rail lines could absorb the load now handled by foreign flag ships.

In aggregate terms the Chinese Communist economy would lose some gains from foreign trade and the Chinese Communist regime would lose some revenue based on these gains. While these losses would be significant they would be minor in relation to the total national income and to total Chinese Communist budgetary expenditures.

C. Military Effects

A total embargo would probably have no significant effect on the capabilities of the Chinese armed forces.

D. Internal Political Effects

A total embargo would not appreciably affect the internal political strength of the Chinese Communist regime.

E. Burden on the Rest of Bloc

A total embargo would increase the economic burden that Communist China imposes on the rest of the Soviet Bloc. This burden cannot be precisely estimated, but the following factors may be noted:

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- a. The rest of the Soviet Bloc would, to a greater extent than before, be exporting to Communist China many commodities that it normally imports for its own use, and would be receiving from Communist China commodities that are less essential to its needs.
- b. Available trade data, based largely on Chinese Communist sources, suggest that in 1952 Communist China had an import surplus of approximately \$500 million with the rest of the Bloc, which is presumed to have been financed for the most part by Soviet grants or credits. While it has been estimated that under a total embargo there would be no increase in the trade deficit, this estimate does not take account of the probable increase in transport costs which might be borne by the Soviet Bloc.

F. Long-run Effects

1. Economic Effects

The adverse economic effects of a complete embargo on output in Communist China would probably decrease rather than increase with the passage of time. The loss of cotton and other raw materials would be made up in large part through the development of domestic production or of domestically produced substitutes.

Chinese Communist plans for the continued expansion of heavy industry would not be appreciably affected since such plans even now are dependent almost wholly on imports of capital goods from the Soviet Bloc and on increased domestic production of capital goods. However, greater emphasis

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probably would be placed on the expansion of rail transport links with the Soviet Union at some expense to other aspects of the development program.

2. Internal Political Effects

An embargo would not appreciably affect the internal political strength of the Chinese Communist regime.

3. Effect on Sino-Soviet Relations

A total embargo would tend to increase the possibilities of Sino-Soviet function. Under present controls, it is probable that the Chinese Communists could make considerable progress in reducing their current trade deficit with the Soviet Bloc. Under an embargo, their capabilities in this respect could be reduced. Should the Soviet Union be unwilling to continue over the next five years to provide Communist China with its essential import requirements, if such shipments would in part have to be made on a grant or loan basis, the adverse effects of an embargo on Communist China would be increased. Under these circumstances, the Chinese Communists might feel that their needs should be given higher priority.

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G. Factors Preventing Full Enforcement of a Total Embargo

1. As long as trade controls applied against the European Soviet Bloc are less rigid than those applied against Communist China, it would be impossible to prevent the transshipment of non-Communist goods directly or indirectly from European Soviet countries. Such transshipment could be stopped completely only if trade with the entire Soviet Bloc were embargoed.

2. Most Western countries are strongly opposed to a further extension of trade and shipping controls against the Soviet Bloc. The political difficulties involved in extending such controls are particularly great in the case of those countries in South and Southern Asia that pursue a "neutralist" foreign policy and for whom trade with Communist China is of significant economic importance.

IV. Blockade

A. Effect on Chinese Communist Trade

Whereas an embargo would operate only against non-Communist trade and shipping, a naval blockade would interdict smuggling and Soviet Bloc sea-borne shipments as well, thus restricting Communist China's imports almost entirely to those which would be brought in overland from the USSR. If the USSR did not increase its overland shipments to Communist China, loss in imports as a result of a naval blockade would amount to roughly 700,000 tons of legitimate and smuggled imports from non-Communist countries plus 700,000 tons in shipments which would otherwise have come in by sea from Soviet Bloc sources, the total value amounting to \$490 million. Similarly, if overland exports to the Bloc were not increased, 1.7 million tons of exports to the

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non-Communist countries and .8 million tons of exports to Soviet Bloc countries with a combined value of about \$350 million would be cut off by a naval blockade.

A naval blockade would also operate against Communist China's coastal trade. Although a blockade might not be very effective against local inshore coastal shipping, it would virtually eliminate Communist China's ocean-going coastal traffic. While a thorough analysis of this traffic has not been made, the major coastal services include the following:

(a) the Dairen-Shanghai trade between the two major industrial areas of China, carrying finished and semi-finished manufactures and processed raw materials, (b) the Shanghai-Chinwangtao coal trade (this trade has reportedly fallen off since 1951 to a rate of less than 400,000 tons a year as a result of transport rationalization measures under which Shanghai receives the bulk of its coal from the nearby Huainan and Poshan mines), (c) POL tanker shipments from the Dairen refinery to Tsingtao and Shanghai (these might amount to one-third or one-half of total commercial POL supplies estimated roughly at 600,000 tons), (d) the Dairen-South China beancake trade (there is a large demand in South China for beancake fertilizer where the leached soils give a larger response to fertilizer applications than elsewhere in China), (e) the Shanghai-South China trade (Shanghai has normally supplied South China ports with consumer goods manufactures in return for foodstuffs and raw materials).

Against the loss of seaborne trade projected above, must be balanced the likely increases in trade with the Soviet Bloc by overland routes.

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Overland exports from the USSR to Communist China in 1953 under present controls are projected at 2.1 million tons, or the level tentatively estimated to have been shipped in 1952. This level of traffic represents considerably less than the theoretical maximum capacity of the overland routes which could be used to supply Communist China and the Chinese Communist forces in North Korea; it is probable that, if the need were great enough, these overland routes could carry, in addition to their present traffic, all of the cargo that would otherwise have come in by sea -- making a total of 3.5 million tons on the basis of the present projection. (See O/RR contribution on Transportation). In this event, however, the cost to the Soviet Bloc of supplying these commodities would be substantially increased. Additional rolling stock would have to be diverted from other railroads in the Soviet Union or a reduction made in the volume of commodities moving to the Soviet Far East. Moreover, the distribution of these additional commodities within Communist China would require the diversion of about 5 percent of Chinese Communist rolling stock from present traffic (see O/RR contribution on Transportation). For these reasons, it is estimated that Soviet exports to Communist China would be substantially less than under a total embargo but that they almost certainly would at least cover Communist China's essential import requirements.

In comparison with projected imports under current controls, it is estimated that under a naval blockade Communist China would receive all of the imports projected from the Bloc (2.8 million tons valued at \$940 million) but would receive less than one-sixth of the tonnage and less than one-third

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of the value of the imports projected from non-Communist countries (120,000 tons valued at \$90 million as compared with 700,000 tons valued at \$290 million). The commodities which would not be received would be: all of the raw cotton, three-fifths of the rubber, all of the ammonium sulfate, one-half of the industrial chemicals, all of the paper, sugar, and gunny bags, and four-fifths of the miscellaneous commodities (chiefly wool, rayon and other non-essential commodities). In summary, overland imports from the Bloc would increase from 2.1 million tons valued at \$740 million to 2.9 million tons valued at \$1,030 million.

Overland exports to the Bloc would also increase. However, because of the increased costs of rail shipments it is tentatively estimated that only \$170 million of projected seaborne exports of \$370 million would be carried overland to the USSR in the event of blockade.

Under this estimate there would be no increase in Communist China's trade deficit with the Soviet Bloc. However, the USSR would have to underwrite the increased costs of rail shipment; if the differential between the costs of sea and rail shipment is estimated at \$25 per ton, these costs would amount to about \$40 million on an additional 800,000 tons of imports and 800,000 tons of exports.

B. Economic Effects

A naval blockade would have a greater effect on the Chinese Communist economy than would an embargo. The interference with Chinese Communist plans would be increased, additional strains would be placed on internal transport, and further gains from trade and further budgetary revenues would be lost.

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The sum of these losses would, however, be small in relation to Communist China's total national income or total budgetary expenditures.

The reduction in imports of fertilizer and industrial chemicals would adversely affect plans to increase output of industrial crops and some consumers' goods.

The blockade would also require the Chinese Communist rail system to absorb an additional load amounting to about 5 percent of the carrying capacity of the existing car park. Over half of this additional load would represent increased overland shipments from the USSR. The remainder would come from the part of the coastal trade for which rail lines offer alternative routes. Some of the coastal track could not be shifted to rail lines, with the result that the ports between Canton and Shanghai would be particularly hard hit by the blockade.

C. Internal Political Effects

A blockade might encourage at least passive resistance to the regime. At the same time it would provide the regime with a plausible excuse for its failures and a new propaganda theme to mobilize popular support for its policies. The net political effect within Communist China of a blockade is not likely to be significant.

D. Effect on Sino-Soviet Relations

No change in existing paragraph 47 in SE-27.

E. Long-term Economic Effects

The adverse economic effects of a blockade on output in Communist China would probably decrease rather than increase with the passage of time

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although the adjustments required would be somewhat more difficult to make than under a complete embargo. The loss of cotton and other raw materials would be made up in large part through the development of domestic production or of domestically produced substitutes.

Chinese Communist plans for continued industrial development would not be appreciably affected since such plans even now are dependent almost wholly on imports of capital goods from the Soviet Bloc and on increased domestic production of capital goods. However, it is probable that the development of rail transport links with the Soviet Union would be speeded up at the expense of other aspects of the development program. It is also probable that because of transport and strategic considerations the development of Manchuria and the Northwest would be given greater emphasis at the expense of the areas of Central and South China.

V. Effects of Bombardment of Lines of Communications In Conjunction With a Naval Blockade

Suggest first half of paragraph 49 in SE-27 be revised to read as follows:

Communist China is heavily dependent on certain critical rail and inland waterways facilities for the execution of military movements and for the maintenance of its industrial output. In Manchuria, which is more highly industrialized than other sections of China, there is greater dependence on modern transport, but the existence of a well-integrated and fairly diversified rail net and a number of good highways has reduced the vulnerability of the transportation system. At the other extreme, in vast areas

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of rural China poor communications necessitate subsistence farming and localized self-sufficient economies.

Paragraph 51 continues to be generally valid. Suggest adding new sentence between second and third sentences of paragraph as follows:
Disruption of these lines could also impede the flow and distribution within Manchuria of essential non-military imports and thus would undermine the regime's economic plans.

VI. Capabilities of the Chinese Nationalists to Blockade the China Coast and to Conduct Air Strikes Against Inland Lines of Communication
(Defense)

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VII. Probable Communist Reactions to the Implementation of These Measures

A. Complete Embargo

A complete embargo on non-Communist trade with Communist China would have no significant effect on Communist China's military capabilities and only limited effects on its civilian economy. Such an embargo would therefore probably have little or no influence, either as a deterrent or a stimulant, on Communist military policies. The Communists would, however, probably launch an intense campaign of political warfare designed to weaken the unity and resolution of the embargoing powers. This campaign would probably stop short of new identifiable aggression, but might include (a) efforts to precipitate strikes and internal disorder within those Western territories, (b) a show of military force on the borders of Hong Kong, Macau, Indochina, and possibly Burma and India, and (c) an increase in technical and logistic aid to Communist rebels in Indochina and possibly in Burma.

B. Naval Blockade

See OIR contribution to NIE 80, pp. 26-28. Add the following:

The Communists could also be expected to take the political warfare measures noted above in the case of total embargo and might launch attacks against Hong Kong and Macau. The likelihood of such attacks would be increased if some of the blockading forces were based on Hong Kong or relied on Hong Kong for bunkering and other services.

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C. Naval Blockade and Bombardment of Inland Communications

Paragraph 57 of SE-27 is still valid, but should be expanded to include the following:

Imposition of a naval blockade and bombardment of inland communications would cause the Communists to reappraise Western intentions. Whether such a reappraisal would lead them to seek a negotiated settlement in Korea or accept new risks in Korea, Indochina or elsewhere would depend on their current global strategy.

D. A Naval Blockade and Air Bombardment by the Chinese Nationalists Alone

A naval blockade and air bombardment by the Chinese Nationalists alone would probably provoke the Chinese Communists to take quick retaliatory action against blockading forces and against Nationalist bases on Taiwan.